

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name EATON COUNTY TRANSPORTATION AUT	County EATON
Fiscal Year End SEPTEMBER 30, 2006	Opinion Date JANUARY 17, 2007	Date Audit Report Submitted to State MARCH 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.		Telephone Number 517-332-1900	
Street Address 1000 COOLIDGE ROAD		City EAST LANSING	State MI
Authorizing CPA Signature 		Zip 48823	License Number 1101013436
Printed Name VICKIE L. CROUCH			

EATON COUNTY TRANSPORTATION AUTHORITY

EATON COUNTY, MICHIGAN

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

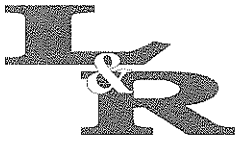
FOR THE YEAR ENDED SEPTEMBER 30, 2006



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Eaton County Transportation Authority
Charlotte, Michigan

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We have audited the accompanying financial statements of the business-type activities of Eaton County Transportation Authority as of and for the year ended September 30, 2006, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Eaton County Transportation Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Eaton County Transportation Authority as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the required supplementary information on pages 3 through 7 and 27 through 39 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eaton County Transportation Authority's basic financial statements. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2007, on our consideration of Eaton County Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Certified Public Accountants

East Lansing, Michigan
January 17, 2007

Eaton County Transportation Authority

Management's Discussion and Analysis

The goal of this discussion and analysis is to provide highlights to the Eaton County Transportation Authority financial activities for the Fiscal Year ended September 30, 2006. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Authority. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Authority's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Authority's financial health.

The discussion and analysis of financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2006 with comparative analysis to year ended September 30, 2005. Please read it in conjunction with the Authority's financial statements, which immediately follows this section.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended September 30, 2006:

- EATRAN'S assets exceeded its liabilities at the end of the most recent fiscal year by \$931,046 (net assets).
- EATRAN'S total net assets decreased by \$194,267. The majority of the new decrease was due to vehicle depreciation.
- EATRAN purchased eighteen new radios for replacement in buses through a Job Access and Reverse Commute Grant during the Fiscal Year at a cost of \$12,526. Some additional purchases in 2006 were office equipment for \$3,134 and work in progress \$63,652.
- Unreserved fund balance decreased by \$194,267 as a result of expenditures exceeding revenues in the current year.

Eaton County Transportation Authority

Management's Discussion and Analysis

Required Financial Statements

This annual report consists of a series of financial statements. The statement of Net Assets includes all of EATRAN'S assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligation of EATRAN'S creditors (liabilities). It also provides the basis for evaluating the capital structure of EATRAN and assessing the liquidity and financial flexibility of EATRAN.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Change in Net Assets. This Statement measures the success of EATRAN'S operations over the past year and can be used to determine whether EATRAN has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the changes in the cash balance during the reporting period.

Financial Analysis of Eaton County Transportation

The statement of Net Assets and the Statement of Activities provide the information to determine how EATRAN did financially during FY 2006. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining EATRAN'S financial health.

Net Assets

The following table shows a condensed comparative statement of net assets as of September 30, 2006.

Eaton County Transportation Authority
Management's Discussion and Analysis

Assets	FY 2006	FY 2005
Current assets	\$ 425,645	\$ 579,320
Fixed assets	<u>663,754</u>	<u>775,508</u>
Total assets	\$1,089,399	\$1,354,828
Liabilities		
Current liabilities	<u>\$ 158,353</u>	<u>\$ 229,515</u>
Total liabilities	\$ 158,353	\$ 229,515
Net Assets		
Invested in capital assets, Net of related debt	\$ 593,752	\$ 775,507
Unrestricted	<u>337,294</u>	<u>349,806</u>
Total net assets	\$ 931,046	\$1,125,313

The following table shows condensed comparative data for the statement of activities as of September 30, 2006.

Revenues	FY 2006	FY 2005
Operating Revenue		
Demand Response	\$ 177,781	\$ 142,755
Contract Fares	61,211	54,641
Meals-on-Wheels	15,375	17,476
Non-operating Revenue	<u>2,151,878</u>	<u>2,176,558</u>
Total Revenue	\$ 2,406,245	\$2,391,430
Expenses		
Depreciation Expense	\$ 183,559	277,494
Other Operating Expenses	<u>2,416,953</u>	<u>2,519,725</u>
Total Expenses	\$ 2,600,512	\$2,797,219
Change in Net Assets	\$ (194,267)	\$ (405,789)

EATRAN'S operating revenue increased 18.4%, or \$39,495 from FY 2005. This increase was primarily due to an increase in fare prices. Non-operating revenue decreased 1.1%, or \$24,680 from FY 2005. Operating expenses decreased 7.03%, or \$196,707 from FY 2005.

Eaton County Transportation Authority
Management's Discussion and Analysis

Capital Assets and Debt Administration

At the end of the fiscal year, the Authority had a net book value of \$663,754 invested in land, pole barn, operating facility, vehicles, maintenance equipment and office equipment (net of accumulated depreciation). The main capital assets added were the eighteen new radios for replacement in buses through a Job Access and Reverse Commute Grant with a value of \$12,526. Other additions included \$3,134 in office equipment, and \$63,652 in work in progress. EATRAN has two contracts: 1) Facility Renovation Z3 for \$106,600 and 2) Facility Expansion Z6 for \$426,390. EATRAN has spent \$60,731 of the facility renovation contract and \$16,350 of the facility expansion contract.

EATRAN has no long-term debt.

EATRAN has a line of credit for \$150,000 with Irwin Union Bank to cover potential cash flow shortages. This line of credit was unused as of September 30, 2006. The Line of credit matures in September, 2007.

Economic Factors

Both State and Federal governments appropriate many of the funds that subsidize public transportation operations. While the Federal funds have remained constant at 10.95% of expenditures in past years, this fiscal year was 17%. The State funds have declined during the past three years in total dollars and as a percent of expenditures as detailed in the table below.

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 04	\$2,197,650	\$928,287	42.24%	\$ 11,553	-1.56%
FY 05	\$2,238,651	\$860,537	38.44%	\$ (67,750)	-3.80%
FY 06	\$2,148,651	\$843,345	39.25%	\$ (17,192)	.81%

Eaton County Transportation Authority

Management's Discussion and Analysis

Millage (Property Taxes)

EATRAN'S property tax is levied each December 1, based on the state equalized value of property located in the county as of the preceding December 31. Taxes levied for EATRAN operations consisted of .2473 mills. Property tax revenue as of September 30, 2006 was \$744,921.

Other Highlights

On June 21, 2004, all full-time and regularly scheduled part-time drivers, dispatchers, custodians, mechanics and mechanic aides at EATRAN voted to have the Amalgamated Transit Union Local 1761 as there collective bargaining representative. Negotiations began October 20, 2004 and a contract was agreed upon and signed on June 14, 2006.

Contact Information

This financial report is intended to provide our citizens, taxpayers and transit users with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Administrative Assistant at 916 E. Packard Hwy., Charlotte, MI 48813. Phone: (517) 543-4145.

EATON COUNTY TRANSPORTATION AUTHORITY

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 28,381
Accounts receivable	7,650
Due from federal government	187,397
Due from state government	145,778
Inventory	18,220
Prepaid expenses	38,219

TOTAL CURRENT ASSETS	425,645
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CAPITAL ASSETS

Work in progress	70,002
At cost, less accumulated depreciation of \$ 2,389,490	593,752

TOTAL CAPITAL ASSETS	663,754
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TOTAL ASSETS	\$ 1,089,399
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 67,530
Accrued wages and related payroll taxes	31,683
Compensated absences	59,140

TOTAL CURRENT LIABILITIES	158,353
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NET ASSETS

Investment in capital assets	593,752
Unreserved	337,294

TOTAL NET ASSETS	931,046
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TOTAL LIABILITIES AND NET ASSETS	\$ 1,089,399
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See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

		PROGRAM REVENUES	PROGRAM REVENUES		BUSINESS - TYPE ACTIVITIES
			OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	
	EXPENSES	CHARGES FOR SERVICES			
FUNCTIONS/PROGRAMS					
Business-type activities	\$ <u>2,590,433</u>	\$ <u>254,367</u>	\$ <u>1,332,222</u>	\$ <u>80,499</u>	\$ <u>(923,345)</u>
		General Revenues and Expenses			
					744,921
					7,179
					(10,079)
					(12,965)
					22
					<u>729,078</u>
					(194,267)
					<u>1,125,313</u>
					<u>\$ 931,046</u>

See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

OPERATING REVENUES	\$ 254,367
OPERATING EXPENSES	<u>2,600,512</u>
LOSS FROM OPERATIONS	(2,346,145)
NONOPERATING REVENUES (EXPENSES)	<u>2,151,878</u>
NET LOSS	(194,267)
NET ASSETS, OCTOBER 1	<u>1,125,313</u>
NET ASSETS, SEPTEMBER 30	<u><u>\$ 931,046</u></u>

See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 263,171
Payment to suppliers	(1,353,465)
Payment to employees	(1,140,739)
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,231,033)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Federal grants	399,047
State grants	991,415
Property taxes	744,921
Local contributions	<u>22</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,135,405</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Purchase of equipment	(3,134)
Purchase of capital assets	(81,641)
Proceeds from sale of buses	2
Proceeds from capital contributions	<u>30,143</u>
NET CASH USED IN CAPITAL AND RELATED AND RELATED FINANCING ACTIVITIES	<u>(54,630)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>7,179</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(143,079)
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CASH AND CASH EQUIVALENTS, OCTOBER 1	<u>171,460</u>
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CASH AND CASH EQUIVALENTS, SEPTEMBER 30	<u><u>\$ 28,381</u></u>
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See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY

STATEMENT OF CASH FLOWS - Concluded

FOR THE YEAR ENDED SEPTEMBER 30, 2006

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY (USED IN) OPERATIONS

Loss from operations	\$ (2,346,145)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	183,559
(Increase) decrease in	
Accounts receivable	8,804
Inventory	(8)
Prepaid expenses	(6,081)
Increase (decrease) in	
Accounts payable	(71,552)
Accrued wages and related payroll taxes	2,985
Compensated absences	(2,595)
	<u>\$ (2,231,033)</u>

See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

NOTE 1: **REPORTING ENTITY**

Eaton County Transportation Authority was incorporated on July 17, 1980, as a nonprofit corporation organized pursuant to the State of Michigan Public Transportation Authority Act 7 of 1967 of the State of Michigan. Its member municipalities include the Cities of Charlotte, Grand Ledge, Eaton Rapids, and Olivet, the Township of Delta, and the County of Eaton.

In June, 2004, the majority of the employees of the Authority organized and formed the Amalgamated Transit Union Local 1761. The union covers all full time and regularly scheduled part-time drivers, dispatchers, custodians, mechanics and mechanic aids.

RELATED ORGANIZATION

Eaton County

Eaton County levies and collects a millage for the Authority, but does not hold title to the Authority's assets, nor does it have rights or obligations to surpluses or deficits of the Authority. The Authority is a legally separate entity established to provide public transportation services to citizens within the county.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Eaton County Transportation Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of significant policies:

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of Eaton County Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on the primary government of Eaton County Transportation Authority. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Presentation

The accounts of Eaton County Transportation Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

Enterprise Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Basis of Accounting

The accrual basis of accounting is followed by Eaton County Transportation Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

E. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000, except for assets purchased with federal and/or state grants which are capitalized regardless of the amount, and an estimated useful life in excess of one year.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

ASSET	DEPRECIABLE LIFE
Building	10-40 years
Vehicles	5-10 years
Equipment	3-10 years

F. Receivables

Receivables have been recognized for all significant amounts due the Authority. No allowances have been made for uncollectible amounts because management feels all accounts receivable are considered collectable.

G. Inventory

Inventory consists of consumable materials and supplies and is valued at the lower of cost or market.

H. Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Reliance on Funding Sources

The Authority receives a majority of its support from state and federal grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Authority's programs and activities.

NOTE 3: CASH DEPOSITS AND INVESTMENTS

Deposits are carried at costs. Deposits of the Authority are at Standard Federal Bank and Eaton Federal Bank, in the name of Eaton County Transportation Authority. Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States Banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Authority's cash and investments at September 30, 2006 are included on the balance sheet under the following classifications:

Cash and cash equivalents	\$ <u>28,381</u>
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The above amounts are classified by Government Accounting Standards Board Statement No. 40 in the following categories:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 28,216
Petty cash or cash on hand	<u>165</u>
Total	\$ <u>28,381</u>

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2006

NOTE 3: CASH DEPOSITS AND INVESTMENTS – Concluded

Deposits are carried at fair market value. The Authority is authorized to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of September 30, 2006, \$76,090 of the Authority's bank balance of \$76,090 was not exposed to any custodial credit risk.

NOTE 4: CAPITAL ASSETS

Depreciation included in the determination of net earnings for the year ended September 30, 2006, amounted to \$183,559. As discussed in note 2, depreciation is computed by the straight line method. The principal categories of capital assets are summarized as follows:

	BALANCE SEPTEMBER 30, 2005	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2006
CAPITAL ASSETS				
Land	\$ 52,674	\$	\$	\$ 52,674
Pole barn	71,232			71,232
Operating facility	969,647			969,647
Vehicles	1,627,261	17,989	160,079	1,485,171
Maintenance equipment	102,291			102,291
Office equipment	301,150	3,134	2,057	302,227
Work in progress	<u>6,350</u>	<u>63,652</u>	<u></u>	<u>70,002</u>
TOTAL CAPITAL ASSETS	<u>3,130,605</u>	<u>84,775</u>	<u>162,136</u>	<u>3,053,244</u>

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2006

NOTE 4: **CAPITAL ASSETS** - Concluded

	BALANCE SEPTEMBER 30, 2005	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2006
ACCUMULATED DEPRECIATION				
Land	\$	\$	\$	\$
Pole barn	5,540	2,374		7,914
Operating facility	690,932	43,844		734,776
Vehicles	1,302,041	125,769	147,110	1,280,700
Maintenance equipment	90,854	3,809		94,663
Office equipment	<u>265,730</u>	<u>7,763</u>	<u>2,056</u>	<u>271,437</u>
Total accumulated depreciation	<u>2,355,097</u>	<u>183,559</u>	<u>149,166</u>	<u>2,389,490</u>
NET CAPITAL ASSETS	<u>\$ 775,508</u>	<u>\$ (98,784)</u>	<u>\$ 12,970</u>	<u>\$ 663,754</u>
	USEFUL LIFE YEARS	PURCHASED WITH CAPITAL GRANTS	PURCHASED WITH AUTHORITY FUNDS	TOTAL
Land		\$ 52,674	\$	\$ 52,674
Pole barn	10-40		71,232	71,232
Operating facility	10-40	758,594	211,053	969,647
Vehicles	5-10	1,198,370	286,801	1,485,171
Maintenance equipment	3-10	56,032	46,259	102,291
Office equipment	3-10	60,696	241,531	302,227
Work in progress		<u>70,002</u>		<u>70,002</u>
TOTAL		<u>\$ 2,196,368</u>	<u>\$ 856,876</u>	<u>\$ 3,053,244</u>

When federal and state funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the Michigan Department of Transportation.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2006

NOTE 5: DUE FROM FEDERAL GOVERNMENT

Eaton County Transportation Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government as of September 30, 2006, is as follows:

For the Year Ended September 30, 2006

Net eligible expenses	\$ 2,420,383	
Funding rate	<u>17%</u>	
Section 5311 revenue	411,465	
Funding received	<u>319,466</u>	
Balance due from year ended September 30, 2006		\$ 91,999
Balance due from year ended September 30, 2005		37,000
Balance due from year ended September 30, 2004		16,728
Balance due from other capital grants		<u>41,670</u>
Due from federal government		<u>\$ 187,397</u>

NOTE 6: DUE FROM STATE GOVERNMENT

Eaton County Transportation Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under the Operating Assistance Agreement as of September 30, 2006, is as follows:

Eligible costs	\$ 2,426,583	
Funding rate	<u>39.254593904 %</u>	
Funding earned	952,545	
Funding received	<u>843,444</u>	
Balance due from year ended September 30, 2006		\$ 109,101
Balance due from year ended September 30, 2005		37,600
Balance due from year ended September 30, 2004		(16,523)
Balance due for Job Access and Reverse Commute Grants prior year		5,183
Balance due from other capital grants		<u>10,417</u>
Due from state government		<u>\$ 145,778</u>

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2006

NOTE 7: RETIREMENT PLAN

Eaton County Transportation Authority sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are at the discretion of the Board of Directors. During the year ended September 30, 2006, contributions to the plan charged to operations were \$0.

NOTE 8: CONTRIBUTED CAPITAL

The contributed capital has been combined with the Authority's retained earnings for GASB 34 requirements.

NOTE 9: COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee. A maximum of 80 hours can be carried over to the next year. Upon separation, unused vacation time accrued during the year of termination plus carryover hours from prior years will be paid along with the employee's final paycheck.

Sick leave is earned at the rate of 1.5 hours per payroll period, provided the employee has attained 70 hours of pay status credit. All employees will be reimbursed for hours in excess of 40 hours accrued sick leave at their anniversary date. Accrued sick leave in excess of 40 hours will be paid to a terminated employee at the time of separation.

Personal leave is earned in varying amounts depending on the number of years of service of an employee. Personal leave time earned but not used is paid by their anniversary date each year. As of September 30, 2006, accrued compensated absence was \$59,140.

NOTE 10: PROPERTY TAXES

Eaton County Transportation Authority's property tax is levied on each December 1, on the state equalized valuation of property located in the county as of the preceding December 31.

The 2006 taxable valuation of Eaton County totaled \$3,028,457, on which ad valorem taxes levied for Transportation Authority operations consisted of .2473 mills. Property tax revenue as of September 30, 2006 was \$744,921. In November, 2006, the millage was passed by the voters for .2469 mills for the next five years.

EATON COUNTY TRANSPORTATION AUTHORITY

NOTES TO FINANANCIAL STATEMENTS - Concluded

SEPTEMBER 30, 2006

NOTE 11: LEASES

The Authority has a three year lease for a copier. The monthly lease payments are \$265 and the lease expires in August, 2008.

The future minimum lease payments (with initial or remaining lease terms of one year) as of September 30, 2006 are as follows:

YEAR ENDING	AMOUNT
September 30, 2007	\$ 3,180
September 30, 2008	2,915

NOTE 12: RISK MANAGEMENT

The Authority is a member of the Michigan Transit Pool Self-Insurance Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of Eaton County Transportation Authority.

The Authority pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

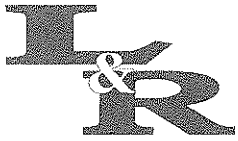
The Authority continues to carry commercial insurance for employee health, workers' compensation, and other insurance including general liability and commercial building insurance.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

NOTE 13: LINE OF CREDIT

The Authority has a line of credit for \$150,000 with Irwin Union Bank to cover potential cash flow shortages. This line of credit was unused as of September 30, 2006. The line of credit matures in September, 2007.

SUPPLEMENTARY INFORMATION



Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Eaton County Transportation Authority
Charlotte, Michigan

Our report on our audit of the basic financial statements of Eaton County Transportation Authority as of and for the year ended September 30, 2006 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the audited procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Layton & Richardson, P.C.

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January 17, 2007
East Lansing, Michigan

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Demand response (farebox)	\$ 177,781
Contract fares	61,211
Package delivery/Meals-On-Wheels	<u>15,375</u>
 TOTAL OPERATING REVENUES	 <u><u>\$ 254,367</u></u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF NONOPERATING REVENUES (EXPENSES)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

State of Michigan Operating Grants	
Nonurban Operating Assistance (Act 51)	\$ 952,545
Prior year adjustment	(36,681)
Jobs Access and Reverse commute operating grant	6,263
Capital grants	<u>13,595</u>
Total State of Michigan Operating Grants	<u>935,722</u>
Federal Operating Grants	
U.S. FTA operating grant - Section 5311	411,465
U.S. FTA operating grant -	
Section 3037, Jobs Access and Reverse Commute operating grant	6,263
Prior year job access adjustment	(5)
RTAP training funds	4,898
Capital grants	<u>54,378</u>
Total Federal Operating Grants	<u>476,999</u>
Local Nonoperating Revenues (Expenses)	
Property taxes	744,921
Investment income	7,179
Loss on disposal of bus	(12,965)
Other local revenues	<u>22</u>
Total Local Nonoperating Revenues (Expenses)	<u>739,157</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>\$ 2,151,878</u></u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF OPERATING EXPENSES BY CATEGORY
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
Labor				
Operator's salaries and wages	\$ 732,892	\$	\$ 107,060	\$ 732,892
Other salaries and wages	69,411	90,245		266,716
Dispatcher's salaries and wages	141,521			141,521
Fringe benefits	535,502	59,518	65,078	660,098
Services				
Advertising fees			7,773	7,773
Audit cost			6,200	6,200
Other services	5,108	23,787	84,183	113,078
Materials and supplies consumed				
Fuel and lubricants	228,606			228,606
Tires and tubes	19,398			19,398
Other materials and supplies	45	48,005	4,393	52,443
Utilities	23,486	11,094	3,636	38,216
Casualty and liability costs				
Premiums - public liability and property damage insurance	85,812			85,812
Other insurance			16,905	16,905
Miscellaneous expenses				
Travel and meetings	96	141	6,956	7,193
Association dues and subscriptions			25,268	25,268
Other miscellaneous expenses		14	1,521	1,535
Interest expense			10,079	10,079
Operating leases and rentals			3,220	3,220
Depreciation	<u>128,022</u>	<u>10,914</u>	<u>44,623</u>	<u>183,559</u>
TOTAL OPERATING EXPENSES	\$ <u>1,969,899</u>	\$ <u>243,718</u>	\$ <u>386,895</u>	\$ <u>2,600,512</u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Labor	\$ 1,141,129
Fringe benefits	660,098
Services	127,051
Materials and supplies	300,447
Utilities	38,216
Casualty and liability costs	102,717
Miscellaneous	33,996
Interest expense	10,079
Leases and rentals	3,220
Depreciation	<u>183,559</u>
Total	2,600,512
Less: Ineligible expenses	<u>180,129</u>
TOTAL ELIGIBLE EXPENSES	\$ <u><u>2,420,383</u></u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF NET ELIGIBLE EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	FEDERAL SEC 5311 REVENUE	STATE OPERATING ASSISTANCE
OPERATING EXPENSES		
Labor	\$ 1,141,129	1,141,129
Fringe benefits	660,098	660,098
Services	127,051	127,051
Materials and supplies	300,447	300,447
Utilities	38,216	38,216
Casualty and liability costs	102,717	102,717
Miscellaneous	33,996	33,996
Interest expense	10,079	10,079
Leases and rentals	3,220	3,220
Depreciation	183,559	183,559
TOTAL OPERATING EXPENSES	<u>2,600,512</u>	<u>2,600,512</u>
LESS INELIGIBLE EXPENSES		
Audit fee	6,200	
RTAP	3,868	3,868
Association dues	272	272
Miscellaneous	1,247	1,247
Interest expense	10,079	10,079
Depreciation	158,463	158,463
TOTAL INELIGIBLE EXPENSES	<u>180,129</u>	<u>173,929</u>
NET ELIGIBLE EXPENSES	<u>2,420,383</u>	<u>2,426,583</u>
Federal Section 5311 revenue (17.00%)	<u>\$ 411,465</u>	
State Operating Assistance		
A. Reimbursement (39.254593904 X \$2,426,583)		<u>\$ 952,545</u>
B. Statutory cap (60% x \$2,426,583)		<u>\$ 1,455,950</u>
C. Must receive as a minimum 1997		<u>\$ 525,195</u>

EATON COUNTY TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 05-06	20.509	Z012/2002-0036	\$ 411,465	\$ 411,465
Job Access and Reverse				
commute operating grant	20.516	Z005/2002-0036	6,263	6,263
Prior year adjustment			(5)	(5)
RTAP training funds	20.509		4,898	4,898
Z003/2002-0036	20.500	Z003/2002-0036	42,921	42,921
Z006/2002-0036	20.500	Z006/2002-0036	8,000	8,000
Z0010/2002-0036	20.500	Z0010/2002-0036	3,457	3,457
TOTAL FEDERAL AWARDS			<u>476,999</u>	<u>476,999</u>
STATE				
<u>Michigan Department of Transportation</u>				
Nonurban Operating Assistance (Act 51)	N/A	2002-0036	952,545	952,545
Prior year adjustment	N/A	N/A	(36,681)	(36,681)
Jobs Access and Reverse commute				
operating grant	N/A	Z005/2002-0036	6,263	6,263
Capital grants:				
Contract:				
Z003/2002-0036	N/A	Z003/2002-0036	10,730	10,730
Z006/2002-0036	N/A	Z006/2002-0036	2,000	2,000
Z0010/2002-0036	N/A	Z0010/2002-0036	865	865
TOTAL STATE AWARDS			<u>935,722</u>	<u>935,722</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 1,412,721</u>	<u>\$ 1,412,721</u>

EATON COUNTY TRANSPORTATION AUTHORITY
STATEMENT OF MILEAGE DATA (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	NORMAL SERVICE
DEMAND RESPONSE VEHICLE MILES	
First Quarter	\$ 207,529
Second Quarter	211,413
Third Quarter	208,589
Fourth Quarter	<u>193,577</u>
TOTAL DEMAND RESPONSE VEHICLE MILES	<u>\$ 821,108</u>

NOTE - The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Eaton County Transportation Authority
Charlotte, Michigan

We have audited the financial statements of the business-type activities of Eaton County Transportation Authority as of and for the year ended September 30, 2006 which collectively comprises the Authority's basic financial statement and have issued our report thereon January 17, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether financial statements are free of material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
January 17, 2007



Layton & Richardson, P.C.

Certified Public Accountants

AUDITORS' LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Directors
Eaton County Transportation Authority
Charlotte, Michigan

We have audited the general purpose financial statements of Eaton County Transportation Authority for the year ended September 30, 2006, and have issued our report on those statements. As part of the audit process, we tested and evaluated the system of internal accounting control and the procedures used to record the financial transactions of Eaton County Transportation Authority. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements.

The management of Eaton County Transportation Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the internal accounting control system would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Eaton County Transportation Authority.

PRIOR YEAR RECOMMENDATIONS

PAYROLL

We noted during our audit testing that employee timecards are not approved before payroll is processed. We recommend that all time cards be approved before payroll is processed. We also recommend that a person independent of the payroll function approve the payroll taxes. **This has been implemented.**

We noted during our audit that some employees' W-4's were outdated. We recommend new W-4's be filled out for both federal and state every three years. This will provide accurate and updated records. It also will verify that the correct withholding allowances are being used. **This has been implemented. All employee's W-4s were updated, but the board members' W-4s were not updated. We recommend these W-4s be updated as well. Board of Directors and management response: This is currently being corrected.**

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PRIOR YEAR RECOMMENDATIONS - Continued

PAYROLL - Concluded

During our examination, we noted that the policy for payroll was changed during August, 2005. One person is now in charge of the entire payroll function. We recommend that the payroll journal accompany the payroll checks when they are given to the authorized check signer. The check signer should review the payroll journal and make sure the hours and pay rates are correct. We also recommend the General Manager be the person to hand out payroll checks. This will help to improve controls over payroll. **This has not been implemented. Board of Directors and management response: This is in the process of being corrected.**

We noted instances during our audit where an employee had requested an additional amount be withheld from their payroll for their state withholding. The additional amount was not being withheld. We recommend verifying the employee wants the additional amount withheld. If the employee still wants it withheld, enter this information into the computer and make sure it is being withheld. If the employee does not want this additional amount withheld, have the employee fill out a new W-4. This will improve controls over payroll. **This has been implemented.**

COMPUTER SOFTWARE

We recommend that the backup data files be tested at least four times a year. This will provide assurance that the backup data will be useful in the event that it is needed. **This has not been implemented. The computer gives a message to the operator that the back-up was successful after completion. However, no restoration test was performed. Board of Directors and management response: This will be implemented.**

CASH RECEIPTS

We noted during our audit that the policy for making the deposit has changed. Now the person who makes the deposit only fills in the dollar amount. The coins are taken to the bank and the bank teller runs it through the coin counter. Then the bank teller informs the depositor of the amount of the coins. The depositor then writes the amount of coins on the deposit slip, totals the deposit slip and makes the deposit. We recommend the amount of money that is to be deposited always be known before the deposit leaves the office, not when the deposit receipt is returned to the office. **This has been implemented.**

We noted during our audit that the person who creates the deposit slip is the same person who takes the deposit to the bank. We recommend someone other than the person who creates the deposit slip take the deposit to the bank. This will improve controls over cash receipts as it will decrease the opportunity for theft and fraud. **This has not been implemented. Board of Directors and management response: This will be implemented.**

GENERAL

During our audit examination, we noted that the Administrative Assistant is an authorized check signer. Although she does not sign any checks, she is an authorized signer so that she can transfer money from one bank account to another. We recommend that the General Manager be the person to make the bank money transfers. We also recommend that the Administrative Assistant be removed as an authorized check signer. This will improve controls over cash and will improve segregation of duties for this matter. **This has not been implemented. Board of Directors and management response: This will be implemented.**

PRIOR YEAR RECOMMENDATIONS – Concluded

GENERAL - Concluded

During our audit we noted that the Board minutes are not signed. We recommend that all Board minutes be signed. **This has been implemented.**

It was noted that the Authority does not have a current investment or credit card policy. We recommend that the Authority implement both an investment policy and credit card policy as soon as possible. The investment policy needs to be in accordance with GASB 40. **This has not been implemented. Board of Directors and management response: This will be implemented during the current year.**

CASH DISBURSEMENTS

We noted instances during our audit where not all of the invoices that were paid were being cancelled. We also noted that the invoices are cancelled by a stamp that says “paid”. We recommend the check number and date also be written on every invoice. This will improve controls over cash disbursements. **This has partially been implemented. All invoices are now stamped “paid” for cancelling. However, the check number and date are not written on the invoice(s). This has not been implemented. Board of Directors and management response: This will be implemented during the current year.**

CURRENT YEAR RECOMMENDATIONS

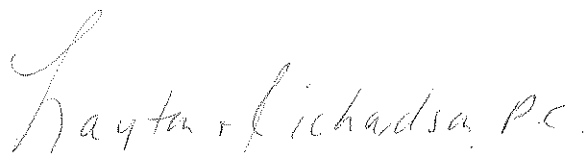
GENERAL

We noted during our audit that the bank reconciliation does not get reviewed after it is prepared. Due to the lack of segregation of duties in the cash receipts, cash disbursements and payroll department, we recommend the bank reconciliation be reviewed for accuracy and unusual entries. This will help increase controls over cash. Further, we recommend that outstanding checks print in numerical order on the bank reconciliation. This will help to account for all checks. **This has not been implemented. Board of Directors and management response: This will be implemented during the current year.**

CASH RECEIPTS

We noted during our audit that some deposits were not made in a timely manner. We recommend deposits, especially those containing large cash receipts, be made in a timely manner. This will greatly increase controls over cash receipts and will decrease the chance for theft and fraud. **This has not been implemented. Board of Directors and management response: This will be implemented during the current year.**

We are grateful to the Authority’s employees for the assistance and cooperation we received during the audit and we thank them.



Certified Public Accountants

East Lansing, Michigan
January 17, 2007